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FOREIGN INVESTMENT IN THE U.S.
A Tentative Upswing

Foreign manufacturing investments in the United States rose last year for the first time in four years. After reaching a peak of 431 in 1979, the number of investments declined steadily to 271 in 1982. Investments increased last year to 280, only a nominal gain over the prior year but nevertheless an indication that the drop of previous years may have ended.

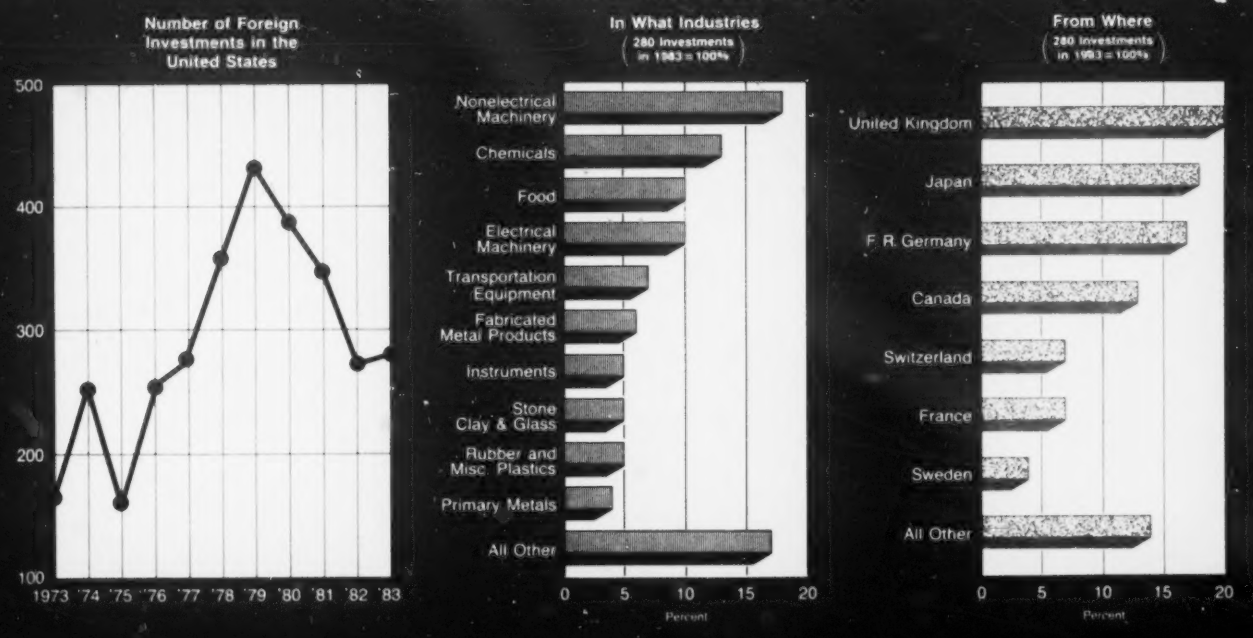
A continued pickup in investments is contingent upon the strength of the economy. Most economists polled by The Conference Board look for gains in real GNP of 5 percent in 1984 and 3 to 4 percent in 1985.[1] These increases may be sufficient to convince foreign companies that the calamitous decline in incomes earned by their U.S. affiliates will be reversed, and that the United States is again a profitable area for new investments.

The poor income performance of U.S. affiliates in recent years can hardly be overstated. The combined income of these affiliates in 1980 was $2.4 billion, up sharply from the $900 million earned in 1977. During the 1981 recession however, income fell to $934 million, and to only $21 million in 1982.

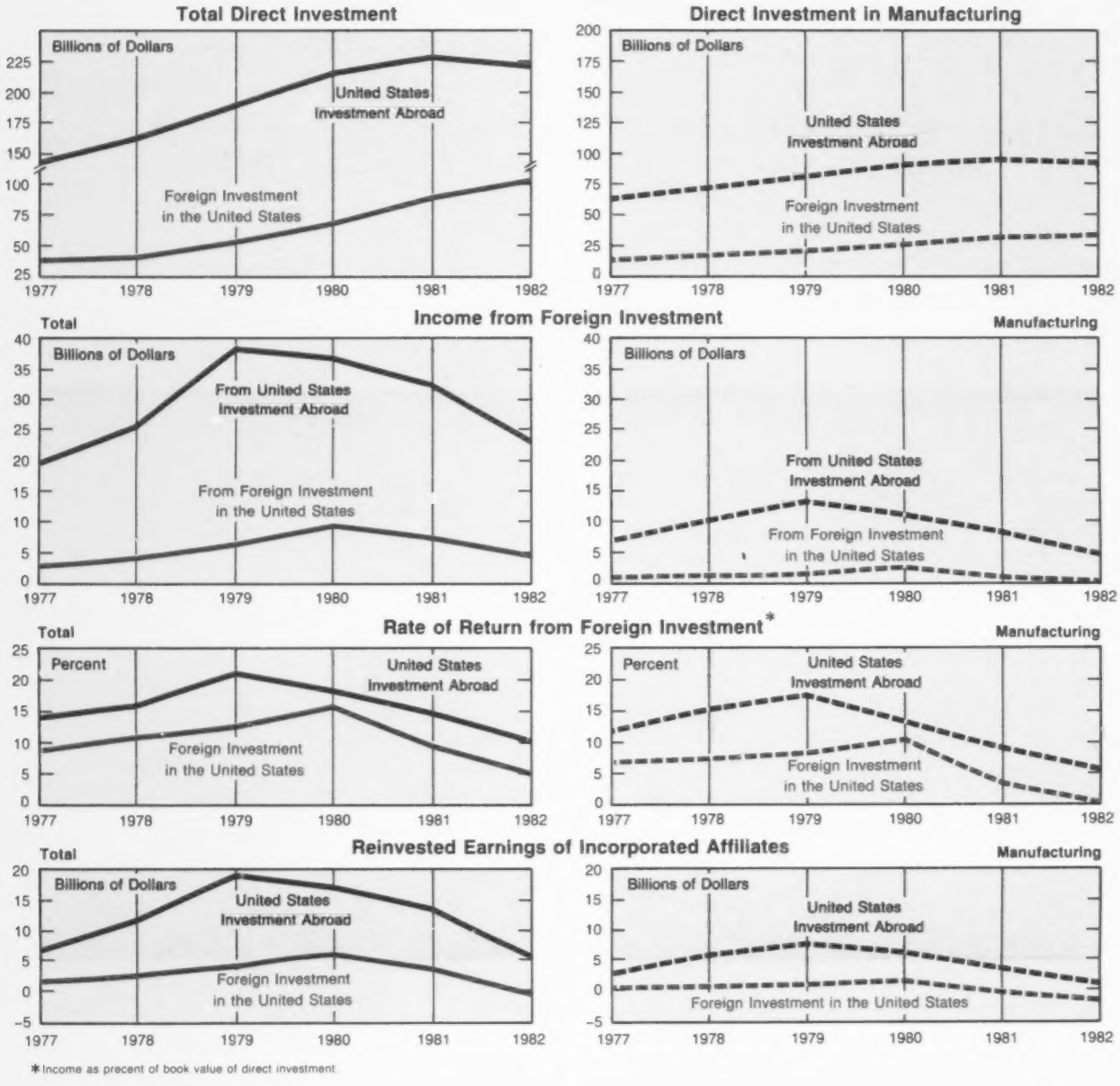
Between 1981 and 1982, the food processing industry was the only major manufacturing sector in which affiliates were able to show increases in incomes. A substantial number of the foreign food companies in the United States are European, and firms from the Netherlands and England accounted for nearly all of the income earned in 1982. Affiliates in the metals industries suffered

[1]These projections are included in the "Statistical Bulletin," a monthly Conference Board publication.

Foreign Investments in U.S. Manufacturing



Perspective on Direct Foreign Investment in the United States, 1977-1982



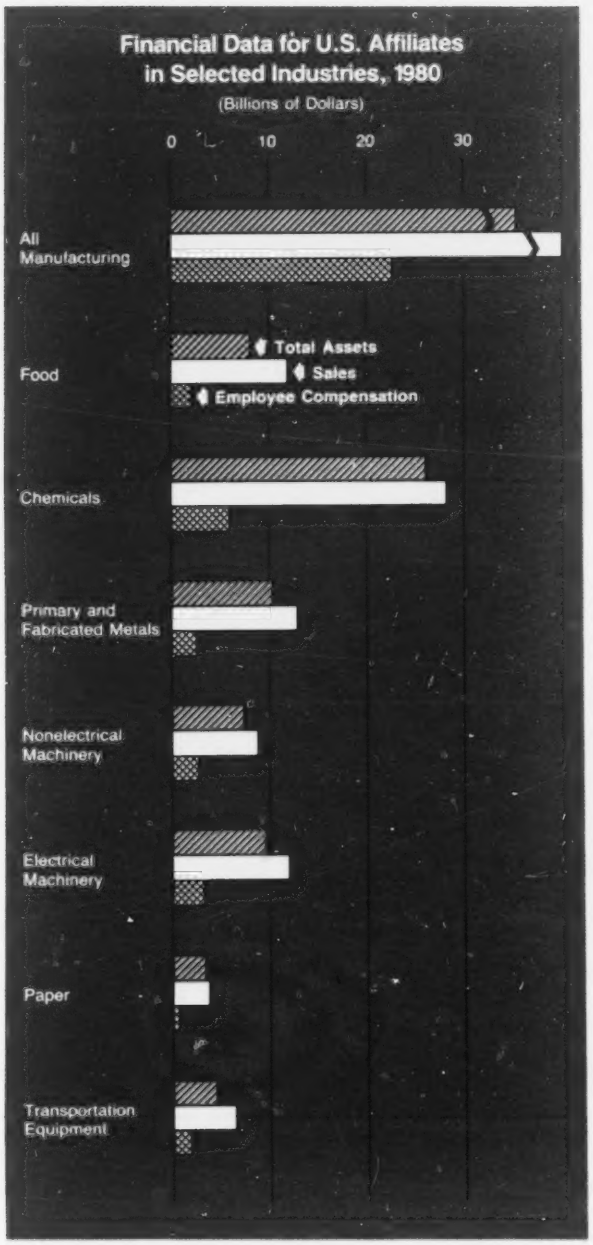
*Income as precent of book value of direct investment.

substantial declines in income primarily because of losses incurred by affiliates of Swiss and French firms. In the transportation sector, West German-owned affiliates producing automobiles and parts had losses in 1982 as compared to net incomes in 1981.

Data on affiliates' income earned in 1983 are not yet available, but the excellent year enjoyed by many U.S. companies suggests that affiliates may also have improved their sales and income. If so, the results may translate into another increase in the number of investments in 1984, although the gain will probably be moderate in comparison to those recorded prior to 1980.

A Profile of Investments in 1983

The book value of foreign manufacturing investments in 1983 was estimated by The Board to be in excess of $32 billion[2] This figure essentially represents foreign companies' equity in, and net outstanding loans to, U.S. affiliates.

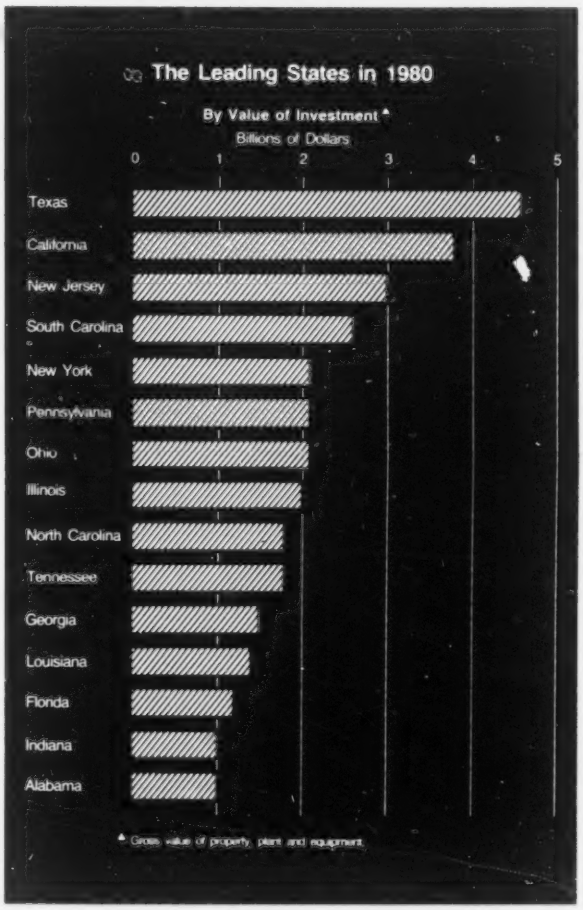


As in the case with data on incomes, 1983 actual figures on book value will not be available until the latter part of 1984, when they are released by the U.S. Department of Commerce. Figures compiled by The Conference Board on the number—as opposed to book value—of investments during 1983 show that English firms accounted from 57 of the 280 investments announced during 1983, followed by firms from Japan (49), West Germany (47), Canada (36), Switzerland (20), and France (19).

These countries have traditionally accounted for the largest share of investments in this country, although in recent years a number of firms from smaller countries have been active investors. In 1983, the Huhtamaki Group of Finland acquired several U.S. producers of confectionery and snack foods. The South Korean firms of Samsung Electronics and Hyundai announced plans to construct plants to produce furniture, television sets, semiconductors and other electronic products. Investments by South Korean and Taiwanese firms (Formosa Plastics acquired several U.S. pipe-making plants in 1983) are viewed by some observers as a repetition by the newly industrialized countries (NIC's) of strategies of European and Japanese firms during the 1960's and 1970's: U.S. sales were first established by exports and the sales base was then expanded by building U.S. production facilities.

Investment by Industry

As in previous years, the number of investments in nonelectrical machinery were larger than in any other ma-



[2]The book value of foreign investment by U.S. firms in 1982 was $221 billion, down 2 percent from the 1981 level. The decline, which was the first in over 30 years, occurred as U.S. companies borrowed heavily from their foreign affiliates and sold some of their Canadian subsidiaries.

jor industrial sector. "Nonelectrical machinery" encompasses a broad number of products although computers and related equipment (random access memory chips, keyboards, parts for microcomputers, etc.) accounted for roughly one-out-of-every five nonelectrical machinery investments last year.

The chemical industry attracted the second largest number of investments. Several were joint ventures. Nippon Sanso and Takeda Chemicals of Japan each formed joint ventures with U.S. companies to produce specialty gases: Courtaulds of England formed a joint venture with a U.S. company to produce carbon and graphic fibers; and Elf of France and Mitsubishi of Japan combined to form a joint venture, capitalized in excess of $20 million, to produce substances used in making plastics. As in previous years, a number of foreign companies announced construction of plants to produce industrial gases; BOC of England revealed that it will spend roughly $29 million to produce gases in Indiana and California; and AGA AB of Sweden announced an outlay of $22 million for construction of an industrial gas plant in Ohio.

(Neither foreign nor domestic firms routinely announce the cost of each of their investments, and thus only partial data are available. Spending figures are available for 159 of the 280 investments announced last year, and these figures total $2.9 billion.)

In the food industry, Japanese firms have become increasingly frequent builders and acquirers of plants whose output is often sold in the United States, as well as exported to Japan. Investments in this industry, however, continue to be dominated by Canadian and European companies such as Imasco, Seagrams, Nestle, United Biscuit, and Charterhouse Group, all of which announced U.S. investments last year.

Investments in the transportation equipment industry are less numerous than in other industries, but these invetments are often of substantial size. The joint venture between General Motors and Toyota to produce automobiles has cleared most, but not all, of its legal hurdles; if undertaken, the $150 million participation by Toyota would rank among the larger investments in recent years. Investments to produce automobile parts or busses were announced by Nikon Radiator and Nippon Cable of Japan; and by Guest, Keen and Nettlefolds (England), Saab (Sweden), and Volvo (Sweden). Other companies announced investments to produce helicopters, yachts and motorcycles.

Regional Benefits

As in previous years, New York State (with 36 investments) led all others in the attraction of foreign firms. A large number of these investments are undertaken by Canadian firms whose location in the northern part of the United States is a natural evolution of their growth in Canada. Many of the New York plants are located close to the parent companies who often have a difficult time viewing their U.S. operations as "foreign."

North Carolina (25 investments) was second to New York, followed by California (19), Texas (18), Illinois (14), Georgia and New Jersey (13 apiece). States such as California and Texas have traditionally accounted for a large share of foreign investments: California because of its attraction for Japanese firms and Texas because its well-developed industrial base, particularly in petrochemicals. Investments in other leading states are partly the result of aggressive outreach programs aimed at foreign companies.

In 1983, The Conference Board surveyed 256 governors, senators and representatives whose states or districts contained a Japanese-owned manufacturing facility.[1] The object of the survey was to elicit the views of elected officials concerning Japanese investments. While the survey was limited to an evaluation of Japanese investments, the responses also apply to capital inflows from other parts of the world as well.

Not surprisingly, in view of the efforts made by states to attract companies, elected officials welcomed them in virtually unqualified terms. An examination of their responses, however, revealed some inherently contradictory expectations regarding the benefits of foreign investments, as well as some disagreements as to what constitutes a benefit.

When asked to list the benefits of investments, "increased employment" was cited most frequently. Other advantages were the introduction of new management and production techniques, as well as new technology. As the report indicated, however, to the extent that investments incorporate new technology and production techniques, the investments are not likely to be labor intensive. Thus, state and local development officials are forced to weigh carefully the trade-offs offered by foreign companies and to structure out-reach programs to meet the sometimes conflicting needs of their economic regions.

Some respondents noted that foreign companies offered a new source of competition for U.S. companies, but there was no unanimity as to whether this constituted a benefit or a liability. Those who viewed competition as a liability feared that foreign companies might grow at the expense of U.S. companies, and that employment in these companies might consequently decline. Those who viewed competition as a benefit were confident of the ability of U.S. companies to rise to the challenges posed by foreign companies.

David Bauer

[1] *Japanese Investment in the United States: An Opinion Survey of Elected Officials,* Audrey Freedman and David Bauer, The Conference Board, 1983.

J. Frank Gaston, Editor
A bimonthly report from

The Conference Board, Inc.
845 Third Avenue, New York, N.Y. 10022
(212) 759-0900 Telex 234465 and 237282

The Conference Board of Canada
25 McArthur Road
Ottawa, Ontario, K1L-6R3, Canada
(613) 746-1261

The Conference Board, Inc.
Avenue Louise, 207 Bte 5
B-1050 Brussels, Belgium
(02)640 62 40 Telex 63635